

FINANCE COMMITTEE

Fiscal Year 2013

The Finance Committee advises the Town on matters affecting Town finances and makes transfers from the Reserve Fund to cover extraordinary or unforeseen expenses. The primary focus of the Committee's responsibility and work consists of adopting guidelines for managing the Town's money and recommending a comprehensive budget consistent with those guidelines to the Annual Town Meeting. As it does so, the Committee considers recent year trends, projections for the next years, and prudent financial management practices. The Committee oversees the formulation and implementation of sound financial management policies. The Committee also recommends a course of action for any articles having financial implications that come before any Annual or Special Town Meeting.

The Finance Committee's recommended Preliminary Budget Guidelines are presented in the fall to the Town Manager, Superintendent of Schools, and Library Director to provide them with information on the level of resources that are expected to be available for spending on operating and capital budgets in the next fiscal year. This enables them to propose budgets in January for Finance Committee review. As it develops the Preliminary Budget Guidelines, the committee considers the revenue that is expected from taxation, state aid including Chapter 70 education funds, and other sources. The committee also considers the need to maintain appropriate levels of reserves in the form of Free Cash and the Stabilization Fund, projections for revenue and expenses in the next years, and longer-term financial demands on the Town. The guidelines are developed from the Finance Director's projections of revenues and spending for the previous, current and next three to five fiscal years.

Changes to the guidelines sometimes occur as new information about funding sources and service needs becomes available during the budget process. Such changes might be to the amount of available resources and/or particular needs to support municipal services, elementary schools, regional schools and library services. The committee may change the proportion of the total going to these different sections of the overall Town operating budget.

The Committee obtains advice throughout the budget process from other boards and committees, staff, and the general public, including the Budget Coordinating Group and the Joint Capital Planning Committee. Two Finance Committee members are designated to serve on Budget Coordinating Group and the Joint Capital Planning Committee and one member serves on the Audit Committee. Committee members also serve as liaisons to the Select Board, School Committees, and Library Trustees to facilitate a coordinated budget process and understand the unique challenges and needs of all Town programs and services.

Fiscal year 2014 guidelines and budget

The development of the FY 14 budget commenced in October 2012 with financial projections from Finance Director Sanford Pooler. Mr. Pooler projected a 3.1% revenue increase for FY 14. The Preliminary Guidelines asked for operating budgets from the Town Manager and for libraries at a 3.0% increase from current year (FY13) levels and asked the elementary schools to develop a budget with a 2.0% increase. The amount for the Amherst Public Schools was a 3.0% increase if calculated from the amount that Town Meeting would have allocated for FY

13 if it not added \$218,200 from Free Cash on a one-time basis, anticipating new revenue from accepting School Choice students. The guidelines asked for a regional school budget that would increase the Amherst assessment by 3.0% and proposed capital expenditures totaling 7.0% of the property tax levy. When the Preliminary Guidelines were developed, the Committee projected that the budget would be balanced without use of Free Cash or Stabilization Funds.

The budget that the committee proposed to Town Meeting, and was adopted at the 2013 Annual Town Meeting, differed from the Preliminary Guidelines in several respects. It required the use of Free Cash to address two one-time needs. Article 25 transferred \$90,000 from Free Cash for the Social Services eligible activities. Article 26 transferred \$30,000 from Free Cash to pay the Town's share of the cost for a Town-Gown Strategic Planning study, a cooperative process with the University of Massachusetts. The General Fund Budget increased by 2.7% from FY 13.

Property tax revenue is predictable since, without an override, it can only increase by 2.5% plus any additional taxation generated by new growth. The second largest source of revenue is from state aid, mostly Chapter 70 funding for education and Unrestricted General Government Aid. As it developed the budget recommendation for Town Meeting, the Committee initially assumed that there would be a modest 0.4% increase for this revenue from the previous year. By Town Meeting, the House of Representatives passed its budget with a 3.1% increase for state aid to Amherst. When the State adopted its budget for FY 14, the net state aid to the Town was within \$23,435 of the assumptions used in the approved budget.

Reserves

The Town had been spending reserves to support operating budgets, in varying amounts, from FY 02 through FY 13. As noted, Town Meeting used \$120,000 from Free Cash to balance the FY 13 budget. The Department of Revenue certified free cash at the end of FY 13 at \$4,738,538. That plus the Stabilization Fund (\$2,915,976) meant that on June 30, 2013, the end of FY 13, reserves were \$7,654,514. The Fall 2012 Town Meeting transferred transfer \$1,002,710 from Free Cash to the Stabilization Fund as recommended by the Committee.

The increase in reserves from the previous year was \$1,506,612. Reserves represented roughly 11.2% of general fund operating revenues. The section of the Finance Committee's 2008 Financial Management Policies and Objectives regarding reserves states that "reserves, including the combined balance of Free Cash and Stabilization Fund, should be maintained at 5-15% of general fund operating revenues. The primary objective of the Town's reserve policy is to provide the Town the flexibility to sustain service levels despite the adverse financial impacts of economic downturns and unforeseen and extraordinary expenses." This goal is a widely accepted measure of good financial standing and a key factor in Amherst's bond rating.

Fiscal year 2013 Reserve Fund transfer

The Reserve Fund is used by the Finance Committee to cover extraordinary or unforeseen expenses of the Town. An amount is appropriated at each Annual Town Meeting for this purpose. Most years, including FY 13, the appropriation has been \$100,000. When the Committee met on July 10, 2013, its members voted to transfer \$3,185 from the Reserve Fund

to the Community Services functional area budget to make up for the additional costs to the veteran budget because of increased service. That meant that \$96,815 was returned to the Undesignated Fund Balance and became Free Cash.

Other Post-employment Benefits (OPEB)

The Finance Committee recommended that the 2012 Fall Special Town Meeting appropriate \$585,342 to the OPEB Trust. The Town Meeting made that appropriation as recommended. Also pursuant to committee recommendations, the 2013 Annual Town Meeting added additional funds to the OPEB Trust from Medicare Part D reimbursements (\$57,055), a decision that one month of employer premiums did not need to be added to the Health Insurance Trust Fund (\$376,253), and from budget allocations within Water and Sewer Enterprise Funds (\$300,000). The OPEB Trust was established at the 2010 Fall Special Town Meeting to enable the Town to hold funds to meet the large unfunded future obligation to provide health insurance for retirees. The Town's OPEB liability was in excess of \$93 million.

Investment Policy

The committee amended the Financial Management Policies & Objectives, initially compiled in 2008, to add an Investment Policy. The policy was developed in order to clarify the Town's procedures and practices for the investment of funds, both short-term (bank accounts) and long-term (Stabilization, OPEB, and other funds). The new policy also responded to two petition Articles from the 2012 Annual Town Meeting that were referred to the Finance Committee.

Meetings

The Committee held 18 meetings during the year including a combined meeting with the Select Board, School Committee and Jones Library Trustees, and meetings with the Amherst Select Board, Amherst School Committee and representatives from the other three Regional School District towns (Pelham, Leverett, and Shutesbury).

Members of the Committee

Members who served diligently and with great thoughtfulness were Andrew Steinberg (Chair), Kay Moran (Vice-Chair), Janice Ratner, Anurag Sharma, Douglas Slaughter, Sarah Swartz, and Marylou Theilman.

Thanks

The Committee required a great deal of staff support to gather information and to present it to Town Meeting. Sanford Pooler gave us invaluable support as Finance Director. He and the staff of the Finance Department provided necessary information about the Town's financial history and current situation. He contributed knowledge, experience, perspective, analysis and advice. Maria Racca, Financial Analyst, organized information for us and also produced our reports, usually under acute deadline pressure. Comptroller Sonia Aldrich provided timely, accurate and informative reports about town revenues and expenses which enabled us to monitor the Town's financial performance as it operated on budgets adopted by the Town Meeting.

We rely on assistance of the Town Manager's office staff to help organize our operation. The committee's review and evaluation of the various parts of the Town's budget depends on the

assistance of the Town Manager, School Superintendent, Library Director and members of their staffs, along with department heads and other staff responsible for municipal services. Contributions of the Select Board, School Committee and Jones Library Trustees are essential to arriving at an acceptable budget to recommend to Town Meeting. We thank them all for their generous assistance.

We are committed to organizing and presenting financial information to Town Meeting members in order to assist them in carrying out their duty to determine spending policies and appropriate funding for Town, School, Library and capital needs of the Town. We appreciate the comments and guidance they give us, both as individual members and as a group, the appropriating authority of the Town.

Andrew Steinberg, Chair